MEMORANDUM

To: RGGI email distribution list

From: Judith C. Whitney, Deputy Clerk of the Board

Re: Notice of RGGI Workshop re set-aside for participation in voluntary renewable programs

Date: February 3, 2009

The Regional Greenhouse Gas Initiative ("RGGI") is a cooperative effort by ten Northeastern and Mid-Atlantic states, including Vermont, to reduce carbon dioxide emissions – a greenhouse gas that contributes to global climate change. Central to this initiative is the implementation of a multi-state cap-and-trade program with a market-based emissions trading system. The Public Service Board ("Board") has been tasked by statute, 30 V.S.A. § 255, to implement the auction provisions of the RGGI program.

On July 18, 2008, the Board issued an Order implementing a process to participate in the RGGI auctions. The July 18 Order further directed Board staff to hold a workshop to discuss details relating to the set-aside and retirement of allowances in proportion to participation in voluntary renewable programs.

Board staff will hold a workshop to discuss the set-aside for participation in voluntary renewable programs on **Tuesday, February 24, 2009, at 11:00 A.M.**, at the Public Service Board Hearing Room, located on the third floor of the Chittenden Bank Building at 112 State Street, Montpelier, Vermont. In order to facilitate future discussions among workshop participants, the workshop will be transcribed by a court reporter.

Board staff have developed a draft framework for a voluntary renewable set-aside program, attached to this memorandum, for discussion at the workshop.

Enclosure (1)

Draft Framework For Voluntary Renewable Set-Aside Program- Board Staff Recommendations

Background:

The July 18 Order stated that the Trustee shall withhold one percent of allowances from auction for retirement in proportion to participation in voluntary renewable programs. Any allowances not utilized for voluntary renewable programs shall be released to auction.

There are currently two voluntary renewable pricing programs administered by Vermont electric distribution utilities: Central Vermont Public Service Corporation's "Cow Power" program, and Green Mountain Power Corporation's "Choose2BGreen" program.[1] In addition, Act 92 requires all Vermont electric distribution utilities to establish voluntary renewable programs or provide customers the opportunity to donate money to the Clean Energy Development Fund. Customers enrolled in these renewable pricing programs pay a premium on their electric rates to support renewable energy.

Overview of Set-aside for Voluntary Renewable Purchases:

A set-aside mechanism allows for the retirement of RGGI allowances in an amount that reflects the offsetting effects on CO_2 emissions associated with voluntary renewable purchases.

The Trustee would retire CO_2 allowances in the set-aside account, in an amount, approved by the Board, up to the number of tons requested by authorized applicants in order to reflect the voluntary renewable energy purchases made by applicants during a given compliance year. Any CO_2 allowances not utilized for the voluntary renewable purchase set-aside program would be released to auction.

Eligibility Criteria:

Board staff proposes that the definition of a voluntary renewable energy purchase be consistent with the RGGI Model Rule. It would be defined as a purchase of electricity from renewable energy generation or renewable energy attribute credits by a retail electricity customer on a voluntary basis. Renewable energy includes electricity generated from biomass, wind, solar thermal, photovoltaic, geothermal, hydroelectric facilities certified by the Low Impact Hydropower Institute, wave and tidal action, and fuel cells powered by renewable fuels. The renewable energy generation or renewable energy attribute credits related to such purchases may not be used by the generator or purchaser to meet any regulatory mandate, such as a renewable portfolio standard.

[1]The Board's Orders approving these programs are: Docket 6933, Order of 7/30/04, at 34 (approving implementation of CVPS's "Cow Power" program); Docket 7043, Order of 10/27/05, at 16 (GMP's Renewable Energy Rider and Voluntary Renewable Support Rider).

On a preliminary basis, the Board staff recommends that the set-aside for voluntary renewable programs be limited to programs offered by or in close cooperation with Vermont electric utilities, rather than being open to renewable-energy-credit purchases made from any qualifying party independent of electric utilities. The Board staff is concerned that it would be administratively burdensome to verify claims made by providers of voluntary renewable programs other than the Vermont electric utilities. Utility-sponsored programs are subject to regulatory oversight and utilities are required to submit a tariff, which is reviewed by the Board and the Department of Public Service, before the tariff goes into effect. Limiting the set-aside to programs offered by electric utilities would be consistent with set-aside programs in other RGGI states.

The Board staff also recommends that the set-aside for voluntary renewable programs not include Vermont electric distribution utilities who solely participate in the Clean Energy Development Fund ("CEDF") as a voluntary renewable pricing program. Only projects actually developed and producing or displacing kwh from the utility under a green-pricing program would qualify. Staff is concerned that applying the set-aside to CEDF projects would raise challenging issues that include burdensome administration, difficulty in verification, and the potential for double-counting.

In addition, the Board staff proposes that renewable energy generation projects would have to be located in a RGGI-participating state to be eligible for the set-aside program.

<u>Verification Protocols for Voluntary Renewable Programs:</u>

Board staff recommends that a reporting requirement would be established for utilities that have voluntary renewable pricing programs to report participation in these programs, so that requests for retirement of associated CO_2 allowances can be made to the Board.

An applicant would submit a written request to the Board to retire a specified number of CO_2 allowances in the voluntary purchase set-aside account. All requests for the retirement of allowances from the voluntary renewable energy market set-aside should be submitted by March 1, immediately following the allocation year for which it is being made. This request would include the following information to verify and document that the voluntary renewable energy purchase demonstrates accreditable CO_2 emissions reductions or avoidance:

- Documentation of number of voluntary renewable energy purchases, in MWh, purchased by retail consumers, by customer class, in Vermont, during the previous calendar year;
- Documentation that the voluntary renewable energy purchases were procured by the retail provider;
- Time period when the retail purchase(s) was made;
- State from which the voluntary renewable energy was purchased, including documentation of facility name, unique generator identification number, and fuel type;
- Time period when the voluntary renewable energy purchases were generated;
- Any additional information to demonstrate that the voluntary renewable energy purchases are eligible in Vermont and not being credited in more than one participating state, and are not being credited toward any renewable portfolio standard or other regulatory requirement.

Calculation of CO_2 Allowances for Retirement:

The Board staff proposes that the total tons of CO_2 retired would be equal to the MWh purchase of voluntary renewable energy multiplied by the marginal CO_2 emissions rate for the region where the electricity represented by the sale was generated. Specifically, the total tons of CO_2 retired will be determined using the following equation:

CO_2 tons = MP × MER/2000
where:
CO_2 tons = the number of allowances (in tons rounded to the nearest whole ton) to be placed in the retirement account.
MP = the MWh of voluntary renewable energy purchased by Vermont consumers during the calendar year, demonstrated by each project sponsor.
MER = the most recently published annual average marginal emission rate (in lbs of CO_2 per MWh)[2] as reported by the corresponding participating state's regional transmission organization.

By July 31, following the March 1st application deadline, of each year beginning in 2010, the Board would direct the RGGI Trustee to retire the number of CO_2 allowances equal to the amount of avoided CO_2 emissions from the previous calendar year, as determined by the equation above.

Set-Aside Program Cap

The July 18 Order stated that the cap on the set-aside program is set at one percent (or 12,258 tons per year or about 22,146 MWh); any increase in the cap would be made only after requesting comments on this issue.

It is the understanding of the Board staff that the one percent set-aside should be sufficient for Vermont's voluntary renewable programs. If the required allowances approach the one percent cap, the Board could revisit this issue.

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[2] For ISO New England, the 2005 annual average marginal emission rate is 1,107 lbs/MWh as reported in *2005 New England Marginal Emission Rate Analysis*, ISO NE, July 2007.